



Last year Intel produced and sold integrated electronic devices that contained a hundred times more transistors than had been used in the entire world during the two decades from the invention of the transistor to Intel's founding in 1968. The cost of a transistor in many electronic functions has decreased several thousand-fold since the early 1960's. This rapid growth in usage and decrease in cost, probably unparalleled in industrial history, arises from the versatile technology for making integrated electronic functions, each of which may consist of thousands of transistors interconnected in a single small crystal of silicon.

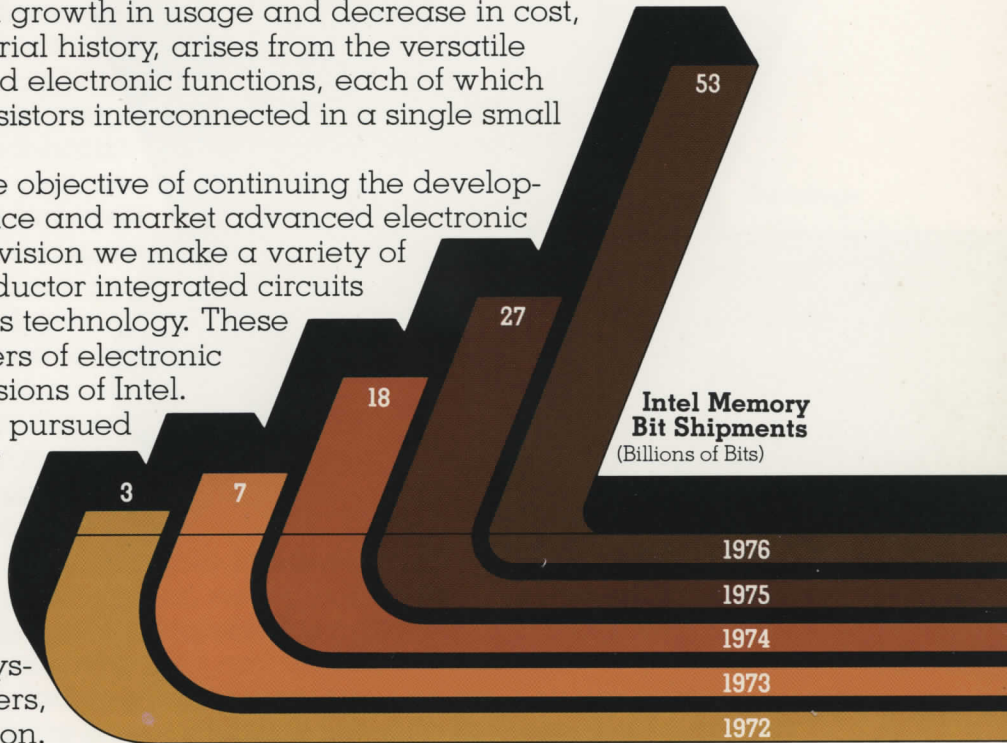
Intel was founded with the objective of continuing the development of this technology to produce and market advanced electronic products. In the Components Division we make a variety of individually packaged semiconductor integrated circuits utilizing several variations of this technology. These are sold broadly to manufacturers of electronic equipment, including other divisions of Intel.

The first product direction pursued by Intel was memory circuits for storing data in a variety of computer-related applications. Memory continues to be a major portion of Intel's business, both at the packaged circuit or "component" level and as complete systems, ready to attach to computers, from the Memory Systems Division.

The second major product direction has been in microcomputers, where the technology of the Components Division is utilized to make complete microprocessors and other complex system functions. Intel produces and sells microcomputer products both as components and as complete microcomputer systems. In only five years since Intel introduced the microcomputer concept, microcomputers have grown to rival memories in market size and importance in electronics. The Microcomputer Division was formed this year to concentrate on the design and marketing of microcomputer components and their use in associated equipment.

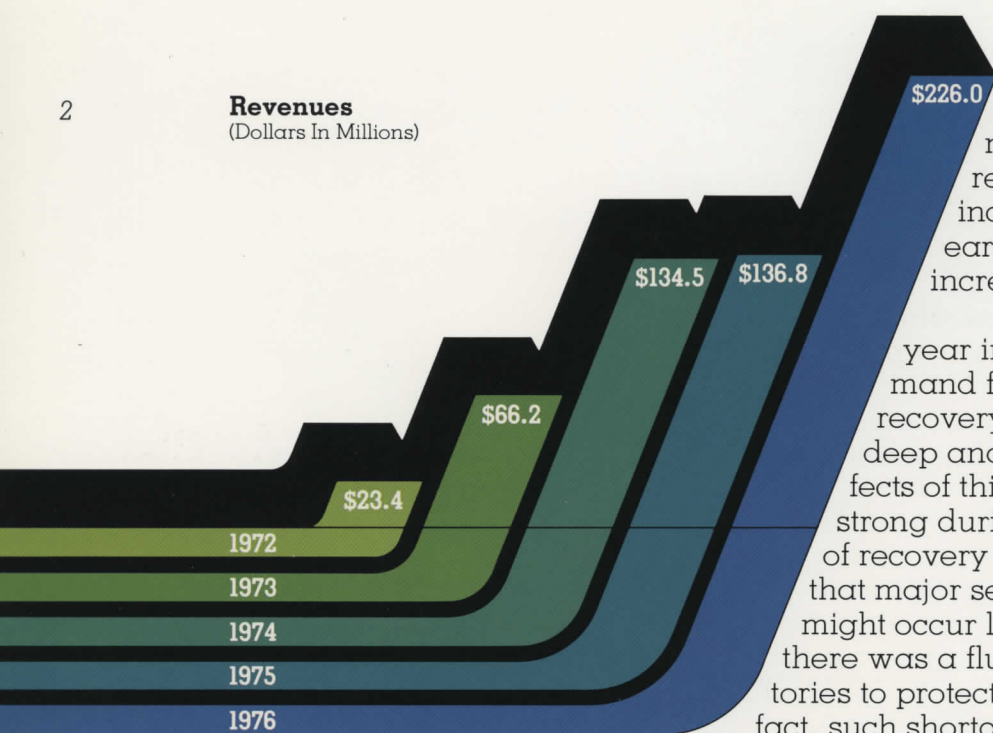
The Components Division is also a key supplier of the complex electronic circuits that make possible the digital electronic watches manufactured and sold by Microma, Inc., a wholly owned subsidiary.

Intel plans to pursue only a select few of the many product opportunities which are emerging as the integrated electronics technology advances, making even more complex functions available at low cost.



Revenues

(Dollars In Millions)



Management Report

Revenues and earnings both reached record levels in 1976. Revenues increased 65.2% to \$226.0 million and earnings rose to \$25.2 million, a 54.9% increase compared with 1975 results.

A major reason for the year-to-year increase was the increased demand for Intel's products resulting from recovery of the world economy after the deep and prolonged recession. The effects of this recovery were particularly strong during the first half, when the rate of recovery led some customers to believe that major semiconductor product shortages might occur late in the year. Accordingly, there was a flurry of buying to build inventories to protect against possible shortages. In fact, such shortages did not develop broadly.

Buying in the last half of the year more nearly approximated actual usage. In particular, the unusually large distributor orders during the first half decreased later in the year.

We expect the recovery to accelerate again in the near future and are now expanding our facilities so that we can take advantage of increases in demand.

Memory components remain a major portion of our business. We project that demand for memory of all kinds will continue to grow at a rate significantly faster than that for the overall electronics industry. Intel has a strong position in major segments of the semiconductor memory market and we feel that we are well situated to compete for a large share as the market grows. We have recently disclosed our plans to introduce several new products which offer improved performance and lower cost in many applications. Demand for our new 16K RAM, as well as our new 4K static and dynamic RAMs, is now ahead of our production capacity, which is being expanded to satisfy this demand.

Recognizing the importance of the area to Intel's future, a new Microcomputer Division was formed. Dr. William H. Davidow, who has been in charge of much of the microcomputer work at Intel, was made division general manager and elected a vice president of the corporation. Interest in these products remains high and our microcomputer business has continued to develop during the year. Intel is expanding the range of its microcomputers by adding products of more capability at the top of the line, and products designed to meet the stringent cost requirements of the simpler applications.

During the year we added a family of single-board-computer (SBC) products that combine several Intel microcomputer components and memory chips on a printed circuit board to make a complete computer. The SBC products are aimed toward the manufacturer who prefers to use a standard product rather than to undertake the design of a special computer for his requirements.

The largest increment of business for the Memory Systems Division came from sales to end-users of plug-compatible add-on memories for IBM 370 computers. These are sold in the U.S. principally by a dedicated Intel sales force and into overseas markets through third parties. The smooth development of this business area was interrupted by IBM's mid-year product announcements that included significant

decreases in the price of IBM-supplied memory. Subsequently the market has returned to previous levels and remains strong.

The electronic watch market experienced major changes during the year. The announcement of low priced light-emitting diode (LED) digital watches by competitors early in the year severely disturbed the market and limited demand for Microma's more expensive products with continuous liquid crystal displays (LCD). At mid-year, however, increasing consumer preference for LCD watches became apparent to the retailers and we rapidly sold out our entire capacity for the rest of the year. Microma enters 1977 with a leading position in LCD digital watches.

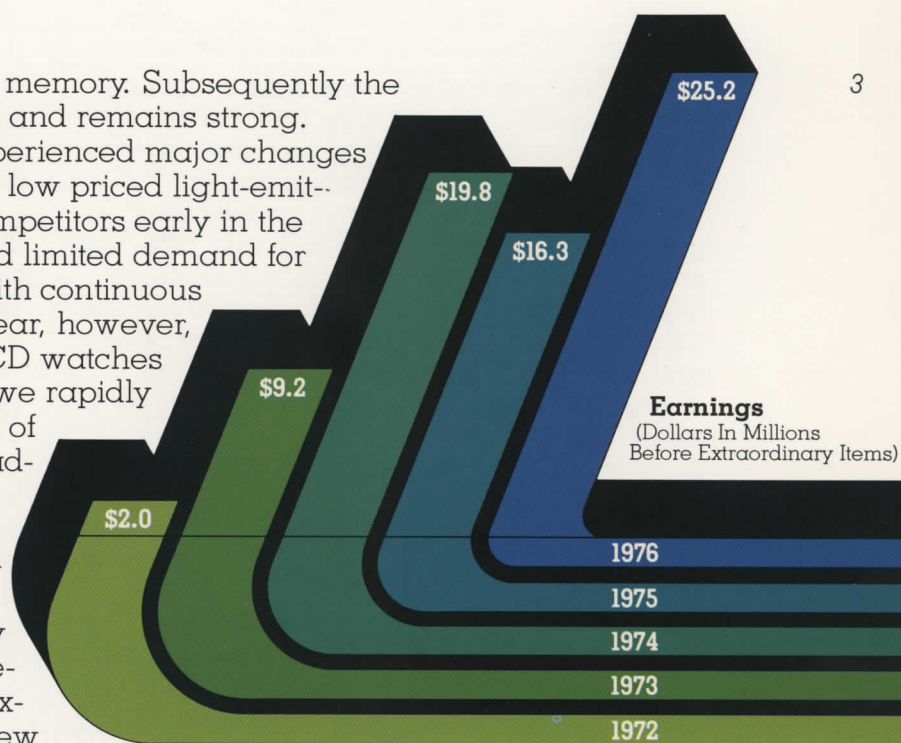
Major increases were made in expenditures for research and development. Semiconductor technology continues to evolve rapidly, opening many opportunities for new products. As a result of this investment in R. & D., Intel expects to introduce several significant new semiconductor and system products during the first half of 1977. In addition to the several types of memories, mentioned earlier, new products include microprocessors, several major microprocessor peripheral circuits and extended microcomputer design aids and software.

Marketing expenses expanded at a rate faster than revenues reflecting the demands of increasingly competitive markets as well as the greater marketing investment required for microcomputer products. Intel's direct field sales force was expanded 33% during the year, and Microma undertook its first direct consumer advertising program with TV ads in major markets.

To accommodate our growth, new plants in Santa Cruz, California, and Aloha, Oregon began operation. The former is devoted to testing of semiconductor components and the latter is a major silicon wafer processing facility. First output of 16K RAMs from this plant should reach customers in first quarter 1977. Construction has begun on a 183,000 square foot building in Santa Clara, California, to house the Microcomputer Division, and a plant is being established in Barbados, West Indies, to add assembly capacity and flexibility. We also purchased and occupied a new building in San Jose, California, that houses administrative functions and a central computer facility.

Employment at Intel grew to 7,347, an increase of about 60% since the end of 1975. Where practical, we are attempting to maintain a small company atmosphere and flexibility by establishing a number of separate locations rather than by concentrating large numbers of employees in a single location.

In spite of the rapid growth during the year and the investment of \$32.1 million in buildings and equipment, our cash position improved. With the more vigorous economy which we expect in the future, we will utilize our cash to finance our growth and to enhance our competitive position.



Gordon E. Moore
President

Robert N. Noyce
Chairman of the Board

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL SUMMARY

4

Net revenues for 1976 were \$226.0 million, up \$89.2 million (65.2%) from 1975. Revenue increases continue to reflect both the recovery of the world economy which began in mid-1975, as well as demand for new Intel products introduced during 1975 and 1976. Unit shipments during 1976 were up significantly over 1975. Although the prices of more mature products continued to decline between 1975 and 1976, these declines were offset by increased unit shipments for these products as well as shipments of newly introduced products. No assurance can be given that such growth can or will continue.

Cost of sales for 1976 were \$117.2 million, up \$49.5 million (73.2%) from 1975. Although cost of sales increased with increasing net sales, such expenditures may lag or precede revenue changes and may therefore increase at a greater or lesser rate. The increase in cost of sales as a percent of sales in 1976 (51.9%) compared to 1975 (49.5%) is attributable to product mix changes and price attrition.

Research and development expenses for 1976 were \$20.7 million, up \$6.2 million (42.4%) from 1975. R. & D. expenses increased in 1976, mainly due to manpower additions, at a rate which we consider necessary to maintain our technical leadership position, although no assurance can be given that such a position can be maintained. Marketing and general and administrative expenses for 1976 were \$36.6 million, up \$15.2 million (71.2%) from 1975. These increases were principally the result of increased staffing in the marketing area and increased advertising expenditures.

Net income for 1976 was \$25.2 million, up \$8.9 million (54.9%) from 1975. The increase in

net income in 1976 did not keep pace with the increase in revenues primarily because the percentage increase in cost of sales exceeded the percentage revenue increase.

1975 net revenue of \$136.8 million was up \$2.3 million (1.7%) from 1974. 1975 cost of sales was \$67.6 million, down \$0.3 million (0.4%) from 1974. These essentially flat results were caused by a sharp decrease in the order activity for semiconductor products in the second half of 1974 and the first half of 1975. Although business began to improve in the second half of 1975, the net result was essentially flat year-to-year revenues from 1974 to 1975. During 1975, in spite of the flat sales picture, management chose to increase its investments in research and development and marketing and general and administrative expenses in anticipation of an increasing economy. In 1975 marketing and general and administrative expenses were \$21.4 million, up \$6.0 million (39.2%) from 1974. The increase was the result of increased staffing in the marketing area, particularly for micro-computer and add-on memory products. Research and development expenses for 1975 were \$14.5 million, up \$4.0 million (38.5%) from 1974. These increases, also, were the result of increasing our staff. Because Intel continued to make large increases in research and development and marketing and general and administrative expenses, net income decreased \$3.5 million (17.7%) from 1974 to \$16.3 million in 1975.

Intel's tax rate for financial reporting purposes continues at approximately 51% of income before taxes, as it has since 1972, when we used up our initial tax loss carryforward.

FINANCIAL SUMMARY

For the five years ended December 31, 1976

| | 1972 | 1973 | 1974 | 1975 | 1976 |
|---|--------------------------------------|-----------------|------------------|------------------|------------------|
| | (Thousands—Except Per Share Amounts) | | | | |
| Net revenues | \$23,417 | \$66,170 | \$134,456 | \$136,788 | \$225,979 |
| Cost of sales | 12,425 | 35,109 | 67,909 | 67,649 | 117,193 |
| Research and development costs | 3,442 | 4,565 | 10,500 | 14,541 | 20,709 |
| Marketing, general and administrative expenses | 3,486 | 7,347 | 15,369 | 21,386 | 36,620 |
| Taxes on income | 2,084 | 9,935 | 20,902 | 16,938 | 26,243 |
| Income before extraordinary item | 1,980 | 9,214 | 19,776 | 16,274 | 25,214 |
| Earnings per capital and capital equivalent share - before extraordinary item* | \$.21 | \$.94 | \$ 1.97 | \$ 1.56 | \$ 2.37 |
| Extraordinary item | | | | | |
| Income tax benefit of net operating loss carryforward | 1,104 | — | — | — | — |
| Net income | \$ 3,084 | \$ 9,214 | \$ 19,776 | \$ 16,274 | \$ 25,214 |
| Earnings per capital and capital equivalent share* | \$.33 | \$.94 | \$ 1.97 | \$ 1.56 | \$ 2.37 |
| Capital and capital equivalent shares used in per share calculations* | 9,372 | 9,762 | 10,016 | 10,400 | 10,621 |

FINANCIAL INFORMATION BY QUARTER

| | March 31 | June 30 | September 30 | December 31 |
|---|--------------------------------------|-----------------|-----------------|-----------------|
| | (Thousands—Except Per Share Amounts) | | | |
| 1976 | | | | |
| Net revenues | \$45,484 | \$50,624 | \$61,879 | \$67,992 |
| Cost of sales | 23,284 | 25,431 | 33,189 | 35,289 |
| Research and development costs | 4,753 | 4,850 | 5,425 | 5,681 |
| Marketing, general and administrative expenses | 7,272 | 9,161 | 9,511 | 10,676 |
| Taxes on income | 5,172 | 5,678 | 7,003 | 8,390 |
| Net income | \$ 5,003 | \$ 5,504 | \$ 6,751 | \$ 7,956 |
| Earnings per capital and capital equivalent share* | \$.47 | \$.52 | \$.63 | \$.75 |
| 1975 | | | | |
| Net revenues | \$30,365 | \$31,501 | \$34,669 | \$40,253 |
| Cost of sales | 14,742 | 16,260 | 16,383 | 20,264 |
| Research and development costs | 3,301 | 3,527 | 3,552 | 4,161 |
| Marketing, general and administrative expenses | 4,724 | 4,279 | 5,744 | 6,639 |
| Taxes on income | 3,906 | 3,822 | 4,620 | 4,590 |
| Net income | \$ 3,692 | \$ 3,613 | \$ 4,370 | \$ 4,599 |
| Earnings per capital and capital equivalent share* | \$.36 | \$.35 | \$.42 | \$.43 |

* Restated for 50% stock dividend in April 1976, treated as a stock split for financial reporting purposes.

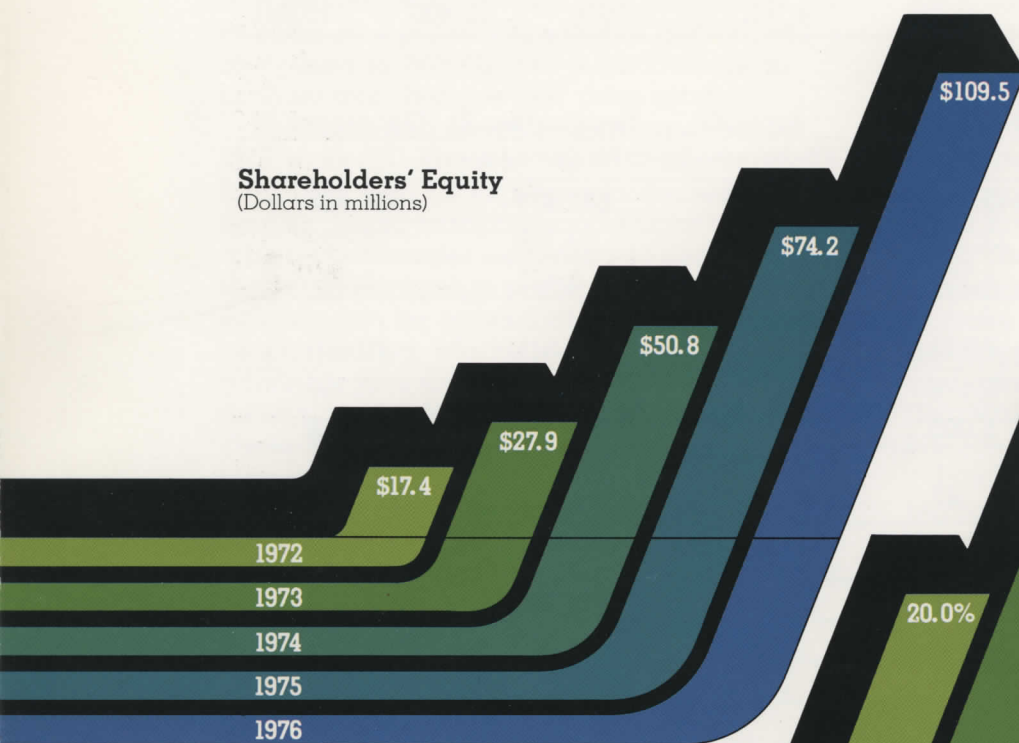
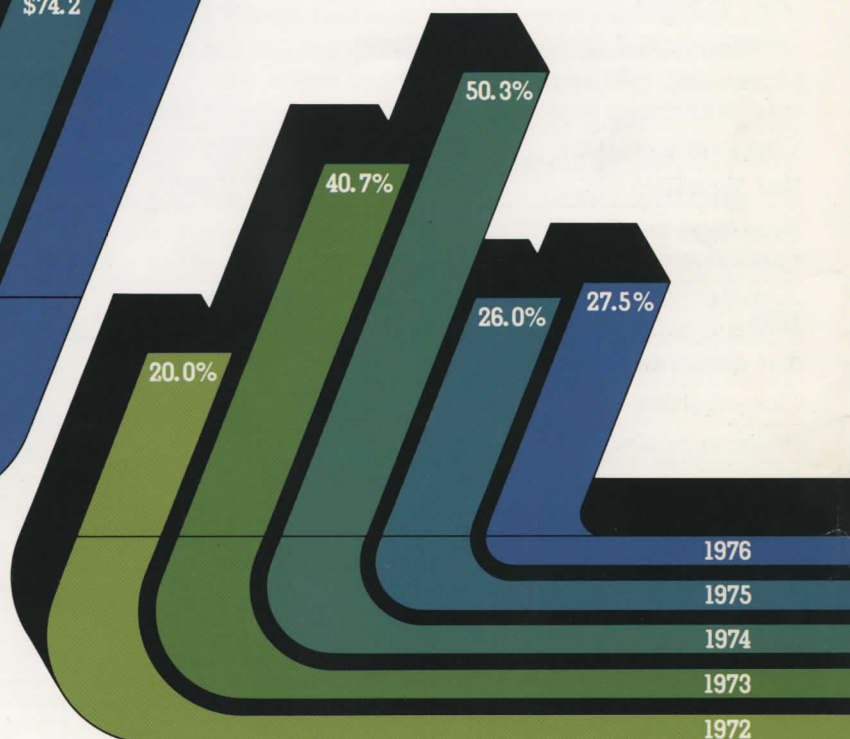
CONSOLIDATED STATEMENT OF INCOME

Years ended December 31, 1976 and 1975

6

| | 1976 | 1975 |
|---|--------------------------------------|------------------|
| | (Thousands—Except Per Share Amounts) | |
| Net revenues | \$225,979 | \$136,788 |
| Costs and expenses (Note 1): | | |
| Cost of sales | 117,193 | 67,649 |
| Research and development | 20,709 | 14,541 |
| Marketing, general and administrative | 36,620 | 21,386 |
| | 174,522 | 103,576 |
| Income before taxes on income | 51,457 | 33,212 |
| Taxes on income (Note 2) | 26,243 | 16,938 |
| Net income | \$ 25,214 | \$ 16,274 |
| Earnings per capital and capital equivalent share (Note 1) | \$ 2.37 | \$ 1.56 |

See accompanying notes.

Shareholders' Equity
(Dollars in millions)**Return on Shareholders' Equity**
(Percent)

CONSOLIDATED BALANCE SHEET

December 31, 1976 and 1975

| | 1976 | 1975 |
|---|------------------|------------------|
| | (Thousands) | |
| Assets | | |
| Current assets: | | |
| Cash | \$ 5,260 | \$ 3,802 |
| Certificates of deposit and commercial paper, at cost which approximates market | 21,123 | 15,491 |
| Accounts receivable, less allowance for doubtful accounts of \$1,597,000 in 1976 (\$1,058,000 in 1975) | 44,316 | 29,938 |
| Inventories (Note 1): | | |
| Materials | 10,153 | 9,078 |
| Work-in-process | 12,991 | 8,779 |
| Finished goods | 4,385 | 2,315 |
| | 27,529 | 20,172 |
| Prepaid taxes on income (Note 2) | 5,981 | 3,976 |
| Other assets, including marketable securities carried at cost (market value \$2,021,000 at December 31, 1976) | 1,290 | 866 |
| Total current assets | 105,499 | 74,245 |
| Property, plant and equipment (Note 1): | | |
| Land and land improvements | 2,836 | 2,066 |
| Buildings and leasehold improvements | 21,834 | 8,619 |
| Machinery and equipment | 37,645 | 21,187 |
| Equipment held for lease | 4,055 | 341 |
| Construction in progress | 2,328 | 5,757 |
| | 68,698 | 37,970 |
| Less accumulated depreciation and amortization | 17,629 | 9,496 |
| Net property, plant and equipment | 51,069 | 28,474 |
| | \$156,568 | \$102,719 |

| | 1976 | 1975 |
|---|------------------|------------------|
| | (Thousands) | |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 9,387 | \$ 7,046 |
| Deferred income on shipments to distributors (Note 1) | 7,646 | 4,551 |
| Accrued liabilities (Note 1) | 10,910 | 7,650 |
| Income taxes payable (Note 2) | 8,742 | 2,202 |
| Total current liabilities | 36,685 | 21,449 |
| Deferred taxes on income (Note 2) | 10,423 | 7,097 |
| Commitments and contingencies (Notes 4 and 5) | | |
| Shareholders' equity (Notes 1 and 3): | | |
| Capital stock, without par value, 20,000,000 shares authorized; shares issued and outstanding: 10,108,000 at December 31, 1976 and 9,839,000 at December 31, 1975; at stated value | 50,845 | 28,289 |
| Retained earnings | 58,615 | 45,884 |
| Total shareholders' equity | 109,460 | 74,173 |
| | \$156,568 | \$102,719 |

See accompanying notes.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Years ended December 31, 1976 and 1975

8

| | Capital Stock | | Retained Earnings | Total |
|--|------------------|-----------------|-------------------|------------------|
| | Number of Shares | Amount | | |
| | (Thousands) | | | |
| Balance at January 1, 1975 (Note 1) | 9,501 | \$21,189 | \$29,610 | \$ 50,799 |
| Sales of shares through employee stock participation plans and upon exercise of employee stock options (Notes 2 and 3) | 338 | 7,100 | — | 7,100 |
| Net income | — | — | 16,274 | 16,274 |
| Balance at December 31, 1975 | 9,839 | 28,289 | 45,884 | 74,173 |
| Stock split effected in the form of a 50% stock dividend (Note 1) | — | 12,483 | (12,483) | — |
| Sales of shares through employee stock participation plans and upon exercise of employee stock options (Notes 2 and 3) | 269 | 10,073 | — | 10,073 |
| Net income | — | — | 25,214 | 25,214 |
| Balance at December 31, 1976 | 10,108 | \$50,845 | \$58,615 | \$109,460 |

See accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 1976 and 1975

| | 1976 | 1975 |
|---|-----------------|-----------------|
| | (Thousands) | |
| Working capital provided by net income from operations, including charges to income not involving the current use of working capital of \$9,478,000 in 1976 for depreciation (\$4,881,000 in 1975) and \$3,326,000 in 1976 for deferred taxes on income (\$3,077,000 in 1975) | \$38,018 | \$24,232 |
| Working capital provided by sales of shares through employee stock participation plans and upon exercise of employee stock options | 10,073 | 7,100 |
| Working capital used for additions to property, plant and equipment | (32,073) | (11,169) |
| Increase in working capital | \$16,018 | \$20,163 |
| Changes in components of working capital: | | |
| Current assets increase: | | |
| Cash, certificates of deposit and commercial paper | \$ 7,090 | \$ 8,069 |
| Accounts receivable | 14,378 | 7,600 |
| Inventories | 7,357 | 4,331 |
| Prepaid taxes on income and other assets | 2,429 | 1,021 |
| | 31,254 | 21,021 |
| Current liabilities (increase) decrease: | | |
| Accounts payable | (2,341) | (3,840) |
| Deferred income on shipments to distributors | (3,095) | (1,399) |
| Accrued liabilities | (3,260) | (1,377) |
| Income taxes payable | (6,540) | 5,758 |
| | (15,236) | (858) |
| Increase in working capital | \$16,018 | \$20,163 |

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1976 and 1975

1 Accounting policies

Basis of presentation The consolidated financial statements include the accounts of Intel and all of Intel's subsidiaries after elimination of intercompany transactions. Significant combined financial information as to Intel's foreign operations, whose revenue and income result principally from transactions with Intel, is as follows:

| | 1976 | 1975 |
|-----------------------------------|-------------|---------|
| | (Thousands) | |
| Current assets | \$13,861 | \$6,198 |
| Current liabilities | 3,259 | 1,159 |
| Net property, plant and equipment | 4,753 | 3,357 |

Deferred income on shipments to distributors

Certain of Intel's sales are made to distributors under agreements allowing right of return and price protection on merchandise unsold by the distributors. Because of the rapid technological obsolescence in the industry, Intel defers recognition of such sales until the merchandise is sold by the distributors.

Warranty Intel reserves an amount which, in the opinion of management, is sufficient to cover the estimated cost to repair or replace product expected to be returned under the various warranty provisions in effect.

Royalties Intel has entered into various cross-licensing agreements. In addition, Intel expects, from time to time, to utilize products and processes of others and may be required to obtain additional licenses and pay royalties for such utilization. Accordingly, Intel provides a reserve which, in the opinion of management, is sufficient to cover any present probable royalty liability.

Inventories Inventories are stated at the lower of cost or market. Cost is computed on a currently adjusted standard basis (which approximates average cost) for work-in-process and finished goods and on a first-in, first-out basis for materials. Market is based upon estimated realizable value reduced by normal gross margin.

Property, plant and equipment Property, plant and equipment are stated at cost. Depreciation is provided principally by use of the straight-line method over the estimated useful lives of the assets for financial reporting purposes (accelerated methods for tax purposes).

Foreign currency translation During 1975, the Company initiated early application of the Financial Accounting Standards Board "Statement of Financial Accounting Standards No. 8" on accounting for the translation of foreign currency transactions and foreign currency financial statements which approximates the temporal method. Exchange gains and losses to date have not been material.

Stock dividend The Company effected a stock split in the form of a 50% stock dividend on April 14, 1976 to shareholders of record April 26, 1976. Numbers of shares and per share amounts for periods prior to the dividend date have been restated to reflect the effects of the stock dividend as if it were a stock split. Under California law, the Company was required to transfer \$12,483,000 from Retained Earnings to Capital Stock to reflect this dividend.

Earnings per capital and capital equivalent share Earnings per share are computed using the weighted average number of capital and capital equivalent shares outstanding. Capital equivalent shares consist of shares issuable under employee stock option plans (Note 3) computed on the treasury-stock method.

Facilities destroyed by fire On May 1, 1975 fire destroyed Intel's assembly plant in Penang, Malaysia. The loss of facilities, equipment, and inventories plus losses related to business interruption were covered by Intel's insurance. The replacement of Intel's facilities and equipment is now complete. Since this was accounted for as a non-monetary exchange, the replacement of facilities and equipment resulted in no gain or loss. The net book value of property and equipment not replaced at December 31, 1975 was classified as construction in progress.

In connection with losses suffered due to business interruption and inventories destroyed, immaterial amounts recoverable from the insurer have been credited to cost of sales.

2 Taxes on income The provision for taxes on income is made up of the following components:

| | 1976 | 1975 |
|------------------------------------|-----------------|-----------------|
| | (Thousands) | |
| Federal: | | |
| Current | \$21,337 | \$12,382 |
| Investment tax credit deferred-net | 1,980 | — |
| Deferred (prepaid) | (776) | 2,061 |
| | <u>22,541</u> | <u>14,443</u> |
| State: | | |
| Current | 4,003 | 2,601 |
| (Prepaid) | (301) | (106) |
| | <u>3,702</u> | <u>2,495</u> |
| | \$26,243 | \$16,938 |

Deferred and prepaid taxes on income result from timing differences in the recognition of certain revenue and expense items for tax and financial reporting purposes. Timing differences relate primarily to franchise tax accruals, deferred income on shipments to distributors and undistributed income of Domestic International Sales Corporations and foreign subsidiaries.

Income taxes payable were reduced by \$6,242,000 in 1976 (\$4,088,000 in 1975) as a result of tax deductions arising out of the exercise of non-qualified stock options and disqualifying dispositions of stock acquired under the Company's qualified plans (Note 3).

During 1976 the Company began accounting for investment tax credit on the deferred method. In 1975 and prior years, investment tax credit, which was immaterial in amount, was accounted for on the flow-through method. The current federal provision for 1976 is net of \$2,200,000 investment tax credit.

The Company's income tax returns for 1972 and 1973 are presently under examination by the Internal Revenue Service. Management does not anticipate any material effect upon the results of operations or the financial position of the Company as a result of the examination.

3 Employee stock option and stock participation plans

Employee stock option plans Under Intel's Qualified and Non-Qualified Stock Option Plans, officers and key employees may be granted options to purchase shares of Intel's authorized but unissued capital stock at not less than 85% of the fair market value at date of grant under the Non-Qualified Plan (100% under the Qualified Plan). Generally, options become exercisable at the rate of 25% per year commencing one to two years from the date of grant. Options for 3,328,125 shares may be granted under the plans as amended. The qualified stock options expire five years from the date of grant. The non-qualified stock options expire ten years from the date of grant. No charge has been made to income in accounting for options. Proceeds and income tax benefits realized by Intel as a result of transactions in these plans have been credited to capital stock (Note 2).

Additional information with respect to employee stock option plans is as follows:

| | Options Available for Grant | Outstanding Options | | |
|---|-----------------------------------|---------------------|--------------------|-----------------|
| | Number | Aggregate Value | Price Per Share | |
| (Thousands—Except Per Share Amounts) | | | | |
| Balance at January 1, 1975 | 827 | 1,148 | \$10,607 | \$ 1.36-\$17.50 |
| Options granted | (363) | 363 | 14,768 | \$14.67-\$57.33 |
| Options exercised | | (279) | (2,126) | \$ 4.15-\$17.50 |
| Options cancelled | 109 | (117) | (1,459) | \$ 1.36-\$57.33 |
| Balance at December 31, 1975 | 573 | 1,115 | 21,790 | \$ 1.36-\$57.33 |
| Additional shares reserved for granting under the Non-Qualified Plan | 600 | — | — | — |
| Options granted | (377) | 377 | 23,681 | \$48.00-\$77.00 |
| Options exercised | | (239) | (2,592) | \$ 1.36-\$51.00 |
| Options cancelled | 72 | (72) | (2,592) | \$ 4.67-\$77.00 |
| Balance at December 31, 1976 | 868 | 1,181 | \$40,287 | \$ 4.67-\$77.00 |
| Options exercisable at December 31: | | | | |
| 1976 | | 278 | \$ 4,572 | \$ 4.67-\$65.67 |
| 1975 | | 237 | \$ 2,427 | \$ 4.15-\$23.83 |

Employee stock participation plans Under these plans substantially all employees are entitled to purchase shares of Intel's capital stock at 85% of the fair market value at certain specified dates. Under these plans an aggregate of 618,750 shares may be issued, 450,000 of which were authorized in 1976. Employees purchased 30,000 shares in 1976 (58,500 in 1975) for \$1,239,000 (\$886,000 in 1975).

4 Commitments

Intel leases a portion of its capital equipment (noncapitalized financing leases) for periods from four to eight years, which periods approximate the economic useful life of the equipment. Intel also leases certain of its manufacturing facilities under leases which expire at various dates through 1986.

Rent expense was \$2,400,000 in 1976, of which \$607,000 was applicable to noncapitalized financing leases (\$2,097,000 in 1975, of which \$787,000 was applicable to noncapitalized financing leases).

The minimum rental commitment under all noncancellable leases with an initial term of one year or more is as follows:

| | Total | Portion Applicable to Noncapitalized Financing Leases (Thousands) |
|-----------|---------|--|
| 1977 | \$1,591 | \$373 |
| 1978 | 1,003 | 208 |
| 1979 | 604 | 34 |
| 1980 | 538 | — |
| 1981 | 445 | — |
| 1982-1986 | 1,179 | — |

Intel has under construction major facilities which will require \$5,748,000 to complete in 1977.

5 Litigation

In 1975, the Western Electric Company, the manufacturing and patent licensing arm of the Bell System, sued Intel for infringement of an expired U.S. patent. Effective as of July 1, 1976, Intel and Western settled the litigation, exchanged patent licenses for the future and released each other for past infringement of all patents in the semiconductor field. As part of the settlement, Intel agreed to furnish Western with masks and other related manufacturing and design information which Intel uses to manufacture three products. The settlement had no material effect upon the results of operations or the financial position of the Company.

6 Quarterly information

The unaudited quarterly information for the years ended December 31, 1976 and 1975 is presented on page 5 of this 1976 Annual Report.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Shareholders
Intel Corporation

We have examined the accompanying consolidated balance sheet of Intel Corporation at December 31, 1976 and the related consolidated statements of income, shareholders' equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously made a similar examination of the financial statements for the prior year.

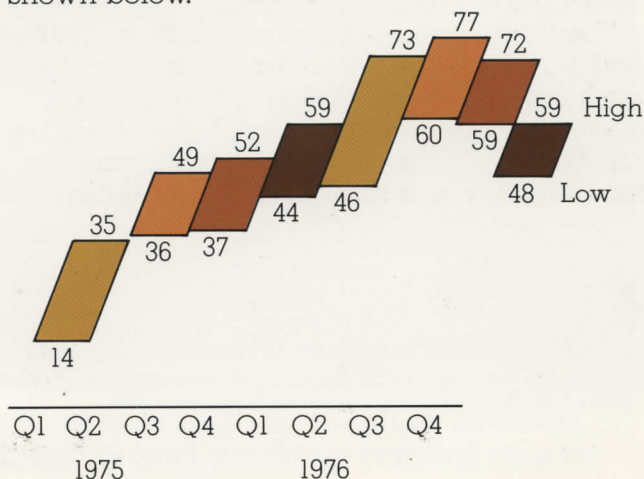
In our opinion, the statements mentioned above present fairly the consolidated financial position of Intel Corporation at December 31, 1976 and 1975 and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

San Jose, California
January 12, 1977

COMPANY'S STOCK

Intel stock is traded in the over the counter market and is quoted on NASDAQ and in the Wall Street Journal and other newspapers. Intel has never paid cash dividends and has no present plans to do so. The quarterly bid price ranges* for the years 1975 and 1976 are shown below.



* Adjusted for the 50% stock dividend April 26, 1976 and rounded to the nearest dollar.

Large Scale Integrated Electronics

Integrated electronics, from which Intel derives its name, has become an increasingly important part of the electronics industry since the company's founding in 1968.

Technological advances in large scale integration have resulted in a rapid decline in the cost of electronic functions. As a result, new markets have been developed as products have appeared from the electronics industry utilizing these new functions on an ever-broadening scale. These new markets range from computer related systems to those such as the digital electronic watch which have displaced mechanical devices.

Intel has been in the forefront of these changes. Semiconductor memory components have increased in complexity from the 64-bit chip Intel introduced in 1969 to the 16,384-bit random access memory chip we introduced in 1976. Memories of increasing size will create an expanding market as costs per bit decrease. Key to decreasing these costs are the technical developments which will allow practical production of components with even more bit capacity than today's products. This is a major objective of our R. & D. programs.

The microprocessor, conceived by Intel and introduced in 1971, is a major factor in the changing world of electronics. As costs have come down and capacity has increased, these devices are now being used by hobbyists as well as by sophisticated industrial customers. The impact of these revolutionary new components will become more apparent as microprocessors begin to appear in the home as parts of games and as appliance controllers, or in the automobile to improve the efficiency of engine, transmission and braking as well as to offer new flexibility in options.



The home computer market has experienced explosive growth. In less than two years over 300 retail computer stores have appeared.



Microma's new Chronograph is thinner and has improved operation. In addition to hours, minutes, and date, the Chronograph features four stopwatch modes. All Microma watches utilize continuous liquid crystal display (LCD).

Intel has used its strength in LSI components to advantage in the equipment markets in producing and marketing memory systems, microcomputer design aids and complete microcomputers on a board. Not only do these business areas provide a major market for our components and encourage their widening use, but they also provide valuable feedback of customer requirements and an avenue for gaining technical expertise for future growth by opening new markets for Intel.

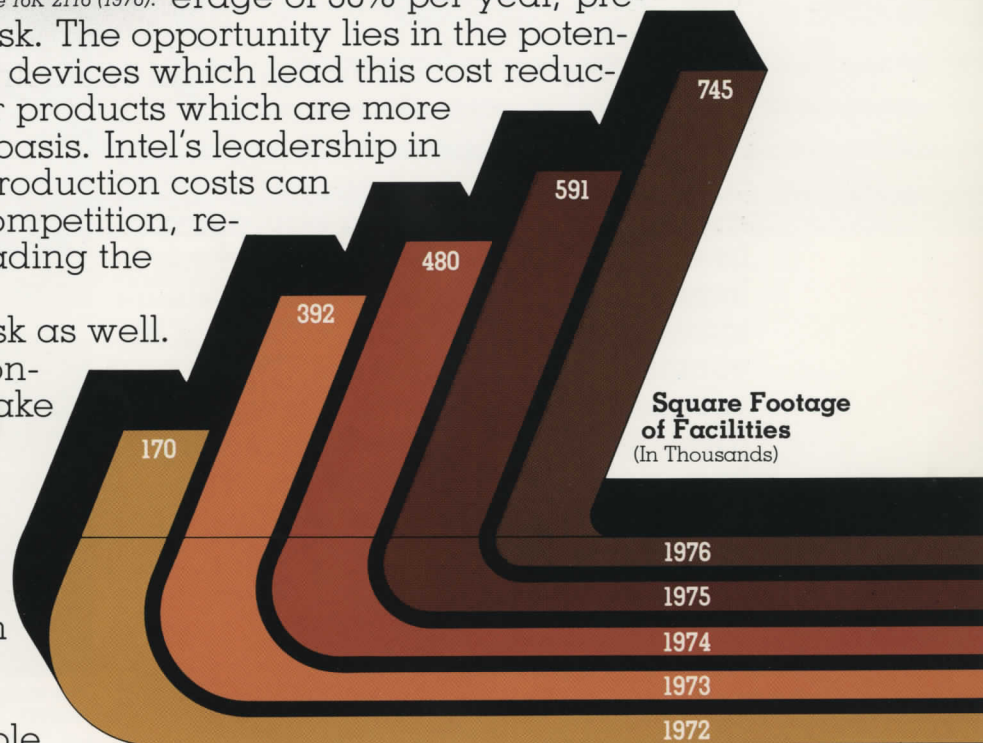
The Constancy of Change The most striking feature of the semiconductor components industry is, perhaps, the continuous and rapid change that has occurred through advances in the technology.



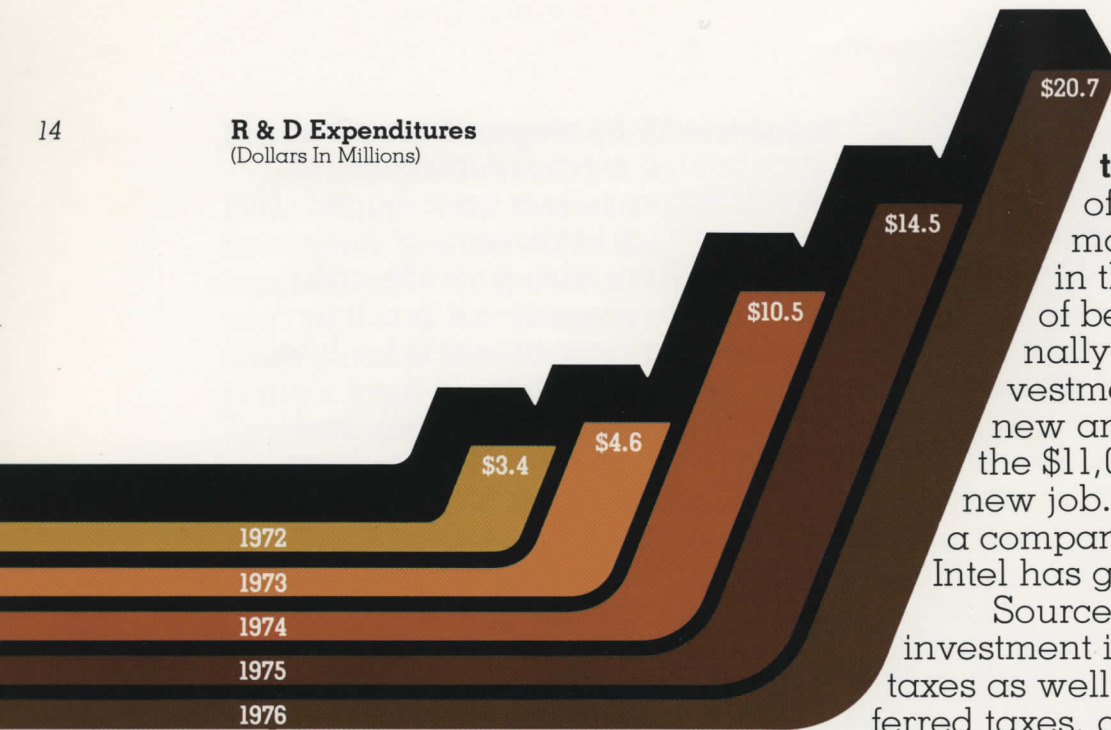
Three generations of Intel dynamic RAMs have set the standards for computer memory. These pacesetter products include the 1K 1103 (1971), the 4K 2107 (1974) and the 16K 2116 (1976).

This is illustrated in the semiconductor random access memory where the progress which Intel pioneered has made the displacement of magnetic core memory possible. The precursors of the main memory of the 70's were the registers and scratchpad memories of the 60's. By more and more sophisticated production techniques, the cost per bit has decreased 1000-fold. This decrease in price and cost, corresponding to an average of 30% per year, presents both opportunity and risk. The opportunity lies in the potential to supply new, lower cost devices which lead this cost reduction in competition with older products which are more expensive on a per function basis. Intel's leadership in these products assures our production costs can be lower than those of our competition, resulting in high reward for leading the technology.

Rapid change creates risk as well. Since the state of the art is constantly changing we must make a significant investment in technology, technical expertise, and plant and equipment to maintain our market position. It is important that we miss no major changes in the technology. Historically, this plan of high investment both in tangible and intangible assets has served Intel well, leading to profits high enough to finance the continuing R. & D., capital investment, and working capital needs.



R & D Expenditures (Dollars In Millions)



Reinvesting in the Future Because of these relatively high margins, Intel has been in the unusual position of being able to internally finance the 40¢ investment needed for each new annual sales dollar or the \$11,000 needed for each new job. This is very rare for a company growing as fast as Intel has grown.

Sources of funds for such investment include profits after taxes as well as depreciation, deferred taxes, and sale of stock

through the Intel Employee Stock Option and Stock Purchase Plans.

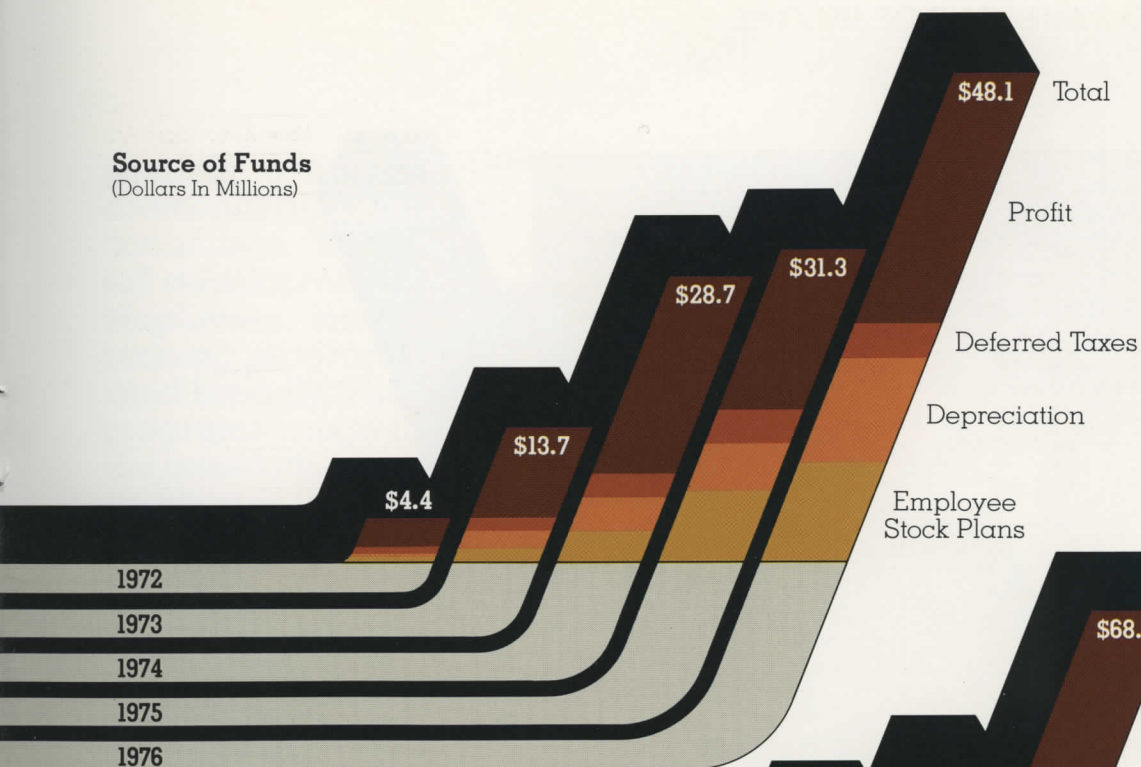
Intel has made use of the tax benefits derived from investment tax credits, tax savings through rapid depreciation policies, and Domestic International Sales Corporation (DISC) benefits. The recent changes in DISC benefits will, of course, have a deleterious effect on our future cash flow, although not on our profits, since profits have always been reported to our stockholders as if there had been no tax deferral.

These funds have been reinvested in plant and production equipment; in equipment made by Intel which is leased rather than sold to our customers; and in working capital for inventories and receivables. These investments are over and above any investment in R. & D. which is very important to the future of the company but does not show on the balance sheet.



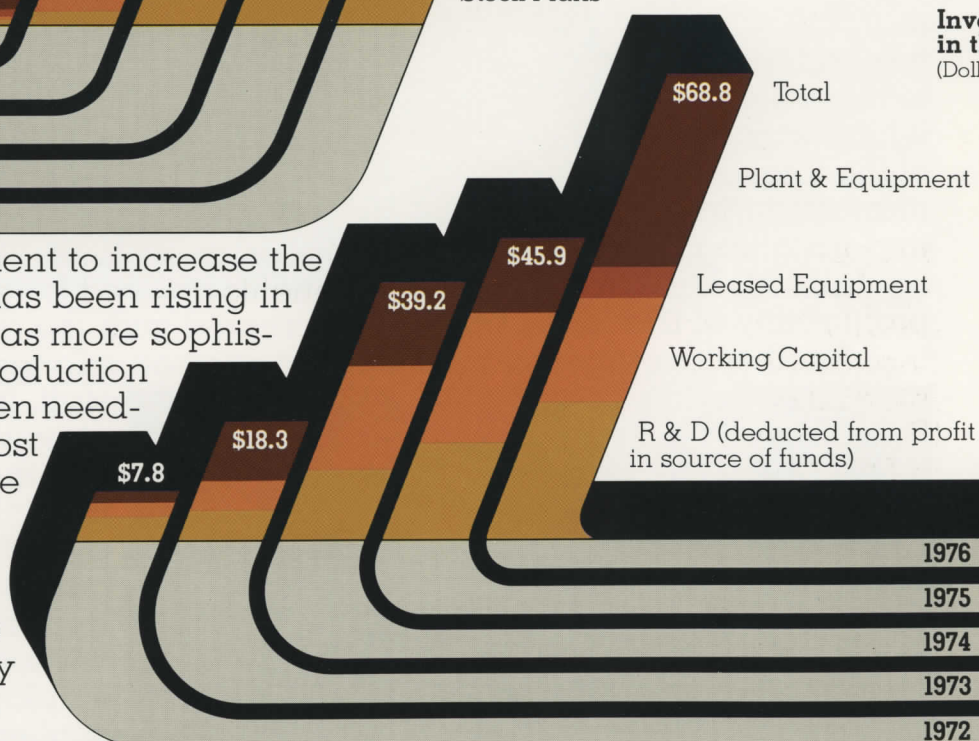
The walls went up on Intel's Santa Cruz facility in August. The facility is now in full production.

Source of Funds (Dollars In Millions)



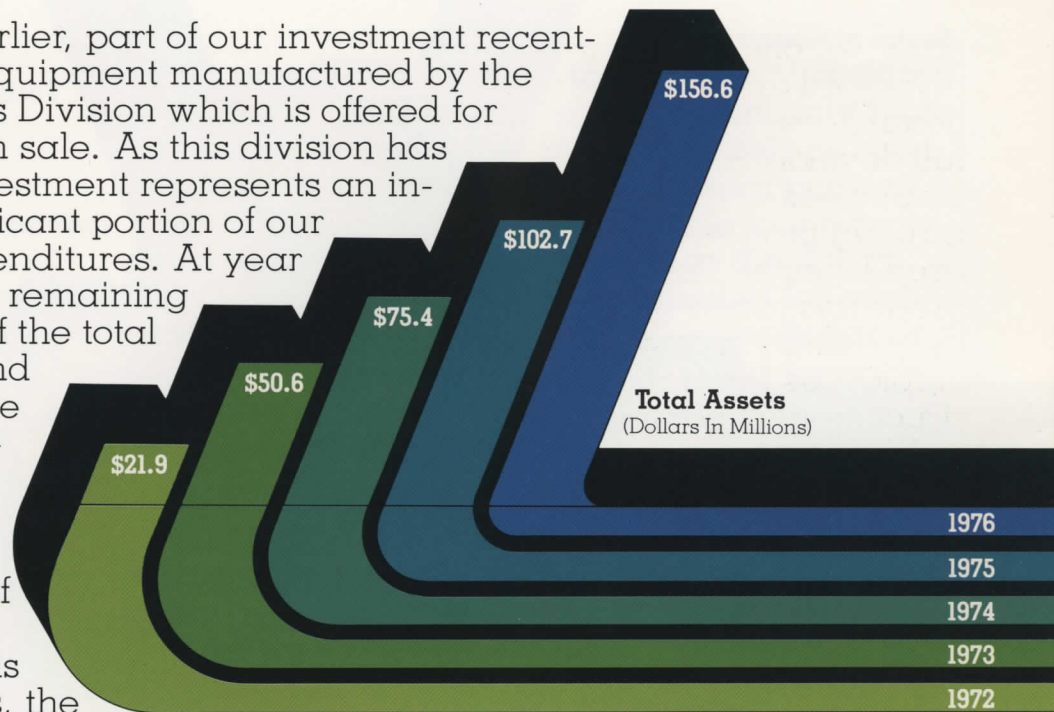
Investment in the Future (Dollars In Millions)

Our net investment to increase the company's sales has been rising in the last few years as more sophisticated test and production equipment has been needed. Similarly, the cost necessary to create a new job has risen. These rising expenses per employee have made higher productivity necessary.



Intel's Aloha, Oregon wafer fabrication facility started production in December. This ultra modern plant is equipped to handle some of the most advanced technologies used to make complex LSI devices today.

As noted earlier, part of our investment recently has been in equipment manufactured by the Memory Systems Division which is offered for lease rather than sale. As this division has grown, such investment represents an increasingly significant portion of our total capital expenditures. At year end the average remaining lease was 82% of the total lease contract and significantly more than the remaining undepreciated value, which was 69% of the total cost of manufacturing and installing this equipment. Thus, the profitability of this lease business increases with the age of the lease.



Another investment which Intel is making on an ongoing basis is in its



staff, in the development of new technical skills and the extension of existing skills into new product areas. Our growth requires that we invest our human assets wisely. We seek to promote our employees into more challenging jobs where

An add-on memory for the IBM 370/125 was announced in October. Intel now markets add-on memories for five of IBM's most popular 370 series, the 125, 135, 145, 158 and 168.

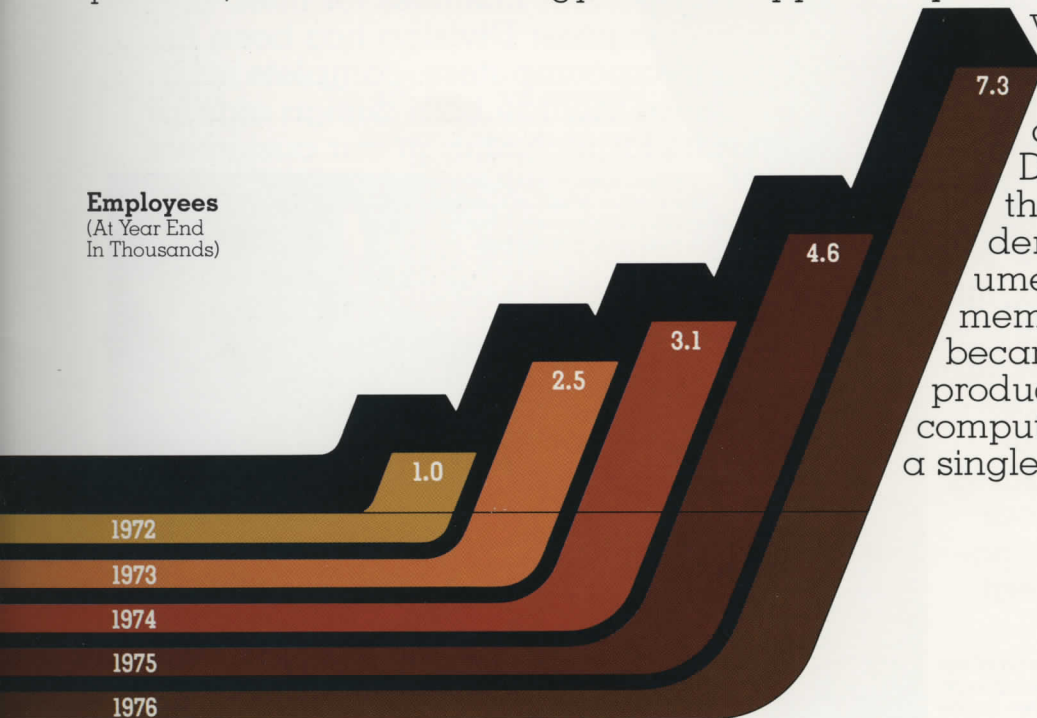
possible, often crossing divisional and organizational lines. To aid the full development of our employees, internal training programs are used broadly. These programs range from the orientation of new employees through instruction in supervisory techniques; and from regular interdivisional seminars to discuss the problems and progress of other parts of the company to graduate level seminars on emerging technology. Four new courses were added during 1976, bringing the total to fourteen. Over twenty-one thousand hours of employee time were devoted to these training activities during 1976.



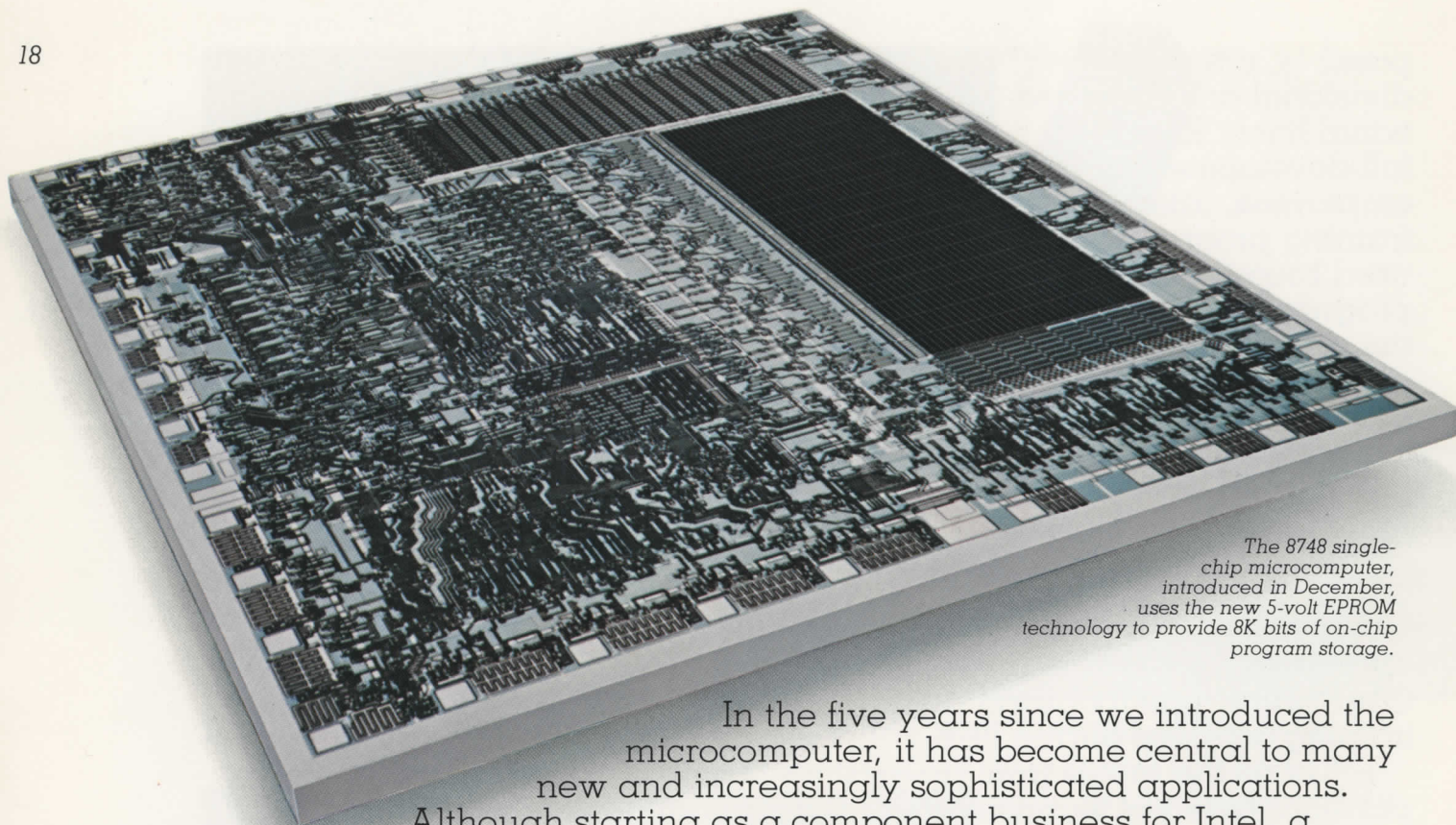
Employee training plays an important part in internal promotions. During 1976 over 600 people were promoted within Intel to positions of greater responsibility.

Just as the profits from an existing business are reinvested in its expansion, assets of technology offer an opportunity for reinvestment as well.

Employees
(At Year End
In Thousands)



An example of this is seen in the Microcomputer Division. Using the LSI technology derived from volume production of memory circuits, it became possible to produce complete computer functions on a single chip of silicon.



The 8748 single-chip microcomputer, introduced in December, uses the new 5-volt EPROM technology to provide 8K bits of on-chip program storage.

In the five years since we introduced the microcomputer, it has become central to many new and increasingly sophisticated applications.

Although starting as a component business for Intel, a larger and larger fraction of the Microcomputer Division has been involved in producing special purpose microcomputers, complete with memory and input/output devices. These include both design aids for our customers and complete computers for inclusion in our customers' products.

Along with this new activity came a new requirement and a significant opportunity for building another intangible asset—software—the programs, documents, and procedures required to utilize our new electronic components and equipment.

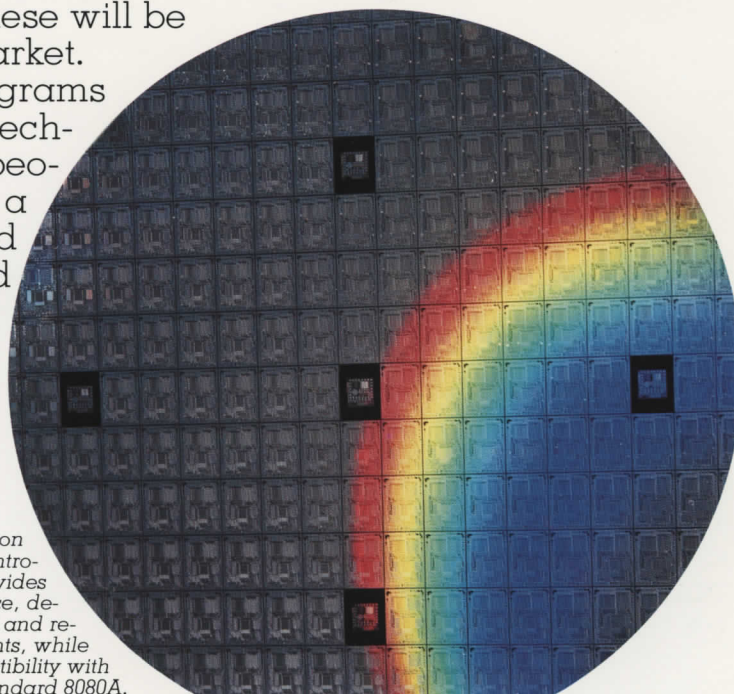
PL/M 80, an improved version of our high level computer language, was introduced in October. It may be operated in resident form on Intellec® Systems.



The value of the software asset is cumulative, both in the increasing library of programs and routines which help our customers use our products and in the ever-increasing experience of our professional staff. Superior software has been responsible in a large part for the industry's standardization around Intel's 8080 as today's most widely used microprocessor. Although the 8080 has been widely copied by our competitors who also take advantage of the software developed by Intel, the broadening use of this product has been to our advantage. It will continue to be so as we develop successors to the 8080 following our plan to reduce our product cost through higher levels of integration available from advanced technology. These will be supplied to the broadening market.

We believe that Intel's programs of reinvesting our profits, our technology, and of developing our people will continue to make Intel a leader in the future. The record growth in revenues and record profits in 1976 reinforces our faith in Intel's future.

The 8085, Intel's third generation 8-bit microprocessor, was introduced in November. It provides increased performance, decreased component count and reduced power requirements, while retaining software compatibility with the industry standard 8080A.



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intel®

FORM 10-K

If you would like to
receive, without charge ,
when available, a copy* of
the corporation's "Form 10-K"
which will be filed with the
Securities and Exchange Com-
mission prior to March 31, 1977
for the 1976 year, please send
your request to:

Roger S. Borovoy, Secretary
Intel Corporation
3065 Bowers Ave.
Santa Clara, Ca. 95051.

*No exhibits will be sent unless
specifically requested. (There will be a
nominal charge for exhibits.)